

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Foreign Trade Improves Markedly

The announcement that the U.S. trade deficit narrowed to a seasonally adjusted \$9.53 billion in July, a development not totally unexpected in the foreign exchange community (Financial Digest—August 29, 1988), has provided further evidence that the trade corner has been decisively turned. July's trade figure, which was the smallest monthly shortfall in more than three and a half years, was welcomed by all the financial markets, as the dollar, as well as the stock and the bond markets, posted significant gains in response.

Even the upward revision of June's already hefty deficit failed to dampen the markets' enthusiasm. Initially estimated at \$12.54 billion, this figure was increased to \$13.22 billion, the largest monthly deficit since February. Nevertheless, the average monthly trade deficit for the three months ending in July fell to \$10.83 billion, a figure more than ten percent below the \$12.14 billion monthly average recorded in the previous three months and almost 25 percent smaller than the \$14.34 billion monthly average posted during the same period in 1987. What is more, the trade deficit so far this year annualizes to \$138 billion, compared with last year's record \$170 billion shortfall.

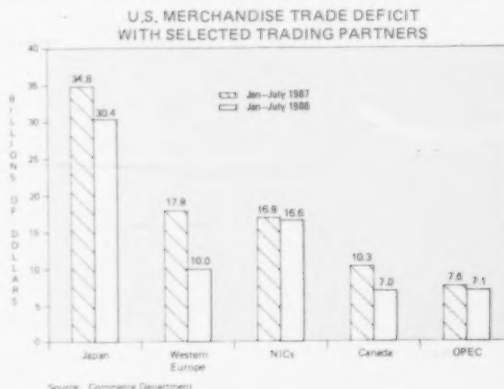
The Deficit Shrinks Worldwide

Most of July's improvement came on the import side of the ledger, a reflection of the slowdown in consumer demand that has occurred in recent months. Imports of consumer goods, for example, fell 10½ percent in July, the largest month-over-month decline in this category since at least 1986. Not only were July's foreign purchases down substantially from the previous month's record, but they were even down from year-ago levels. The slowdown in U.S. economic activity since bodes well for further reductions in foreign purchases.

There was also good news on the export front. Although the rate of growth of foreign sales has decelerated from the rapid clip of earlier this year, the trend is still

decisively upward. Exports in July totaled \$26.47 billion, up modestly from \$26.28 billion in June, bringing the seven-month total to \$182.15 billion, more than 28 percent above 1987's same period figure. What is more, there is a good chance that the pace may accelerate again, given the fat order backlogs existing in most export industries and the pickup in economic growth rates of many of our trading partners.

Looking regionally, the United States has pared its trade deficit—in some instances quite substantially—with virtually all of its trading partners this year, largely due to the considerable decline of the dollar since February 1985 (see chart). The biggest improvement has been with the countries of Western Europe. Although the size of the deficit with this group widened a bit last month to \$2.3 billion, this does not detract from the substantial progress made to date.



During the first seven months of this year, the U.S. nearly halved its trade deficit with Western Europe to less than \$10 billion from almost \$18 billion a year earlier. During the same period, the U.S. also reduced its shortfall with Japan by more than \$4 billion to \$30.4 billion, while our deficit with Canada diminished by over \$3 billion, to \$7 billion. And, although a great deal more needs to be done in narrowing the deficit with the newly industrialized countries of East Asia (the NICs), even here, there are signs that the trade gap is stabilizing. The U.S. trade deficit with the NICs (Taiwan, South Korea, Hong Kong, and Singapore) narrowed modestly by some \$400 million to \$16.6 billion during the first seven

Manufacturers
Hanover
Economics
Department
17/270

months of this year from the January-July period in 1987.

A Halt To The Dollar's Rise

Although the foreign exchange markets' initial reaction to the good trade data was to push the dollar sharply higher, further appreciation has been capped by fears of central bank intervention. Both the Federal Reserve and the German Bundesbank sold dollars in the open market in an effort to break the greenback's advance and to give the forex markets a sign that the central banks want the dollar to remain where it is. This is because they are concerned that a

major upward move of the dollar would choke off the U.S. export recovery, thereby inhibiting further progress in reducing the trade deficit. At the same time, however, any additional declines of the dollar would be counterproductive as they would raise import prices further while pressing industries whose capacity use is already tight.

Fear of central bank intervention is not all that's taking some of the steam out of the dollar's advance. One of the major dollar props over the summer had been the rising trend in U.S. interest rates and the perception that the still-strong performance of the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of \$100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/7/88)	191,427	+ 391	+ 18,155
New York City (9/14/88)	38,298	- 229	+ 986
Commercial Paper (9/14/88)	414,092	- 5,333	+ 59,843

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/7/88)	296,869	+ 52	+15,149
New York City (9/14/88)	56,964	+ 340	- 1,257

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/7/88)	897,068	- 1,098	+50,958
New York City (9/14/88)	173,851	- 2,101	- 4,519

Financial Markets

	Friday 9/23/88	Change Since Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.44%	+ .08	+ .76
180-Day Bills†	7.82	+ .08	+ .63
Longest Bills†	8.09	+ .11	+ .38
Recent Issues:			
85/8S 8/31/91	8.42	+ .06	
81/4S 6/30/92	8.62	+ .05	
91/4S 8/10/98	8.95	+ .03	
91/8S 5/15/18	9.05	+ .05	
Municipals:			
Bond Buyer—20 Bond Index* (9/22/88)	7.62%	+ .03	- .68
Blue List Total (\$ Million)	\$1,454	+ \$ 270	-\$ 86
30-Day Visible Supply (\$ Million)	\$1,165	- \$ 556	-\$ 643
Total	\$2,619	- \$ 286	-\$ 729
Corporates:			
Moody's Aa Composite (9/22/88)	9.94%	- .11	- .48
30-Day Visible Supply (\$ Million)	\$4,822	+ \$1,264	+\$1,370
Stocks:			
*Dow-Jones Averages:			
Industrials	2,090.68	- 7.47	-479.49
Transportation	892.32	+ 16.28	-140.87
Utilities	179.71	- .53	- 16.24
65 Stocks	785.84	+ 1.97	-150.11
N.Y.S.E. Composite Index	152.38	- .41	- 26.76
N.Y.S.E. Avg. Daily Vol. for Week (000's)	140,332	- 25,050	-36,314

*34% Taxable equivalent 11.55%.

† Bond equivalent.

International Rates

	Friday 9/23/88	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.00%	7.94%
1 month	8.13	8.19
3 month	8.19	8.25
6 month	8.50	8.50
1 year	8.69	8.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/23/88)	Currency Par U.S. \$	Week Ago
Belgium	39.33	39.36
Canada	1.2205	1.2235
France	6.4020	6.3800
Germany	1.8765	1.8778
Italy	1401.25	1399.00
Japan	134.55	134.24
Mexico	2273.00	2273.00
Netherlands	2.1155	2.1175
South Korea	719.90	720.00
Switzerland	1.5850	1.5825
Taiwan	28.93	28.90
U.K.*	1.6695	1.6738

* U.S. \$ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/23/88)	Change Since Week Ago	2/27/85
(Adjusted for Inflation)	+0.2%	-2.5%

U.S. economy would lead to additional tightening of monetary policy by the Federal Reserve and even higher U.S. interest rates. This perception has been diminished, however, by recent signs that the pace of U.S. economic activity may be slowing.

The substantial drop in imports during July, the easing of retail sales in August and the virtual flattening of industrial production and industry operating rates last month, all provide evidence that the Federal Reserve's tightening of monetary policy earlier this year has already produced the desired results, thereby reducing the likelihood of

any further increases in U.S. interest rates. Thus, the probability of steady U.S. rates for the foreseeable future may have lessened some of the dollar's "high yield" allure.

But while fear of central bank intervention and the likelihood of stable U.S. interest rates may limit the dollar's appreciation in coming weeks, it may not stop it altogether. This is because if July's trade deficit is only a harbinger of more pronounced improvements down the road, it won't be too long before the forex markets decisively test the central banks' resolve to maintain stable exchange rates.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/21/88	\$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	236.913	+ 4,394	+ 3,493
Loans to Depository Inst.	2,911	- .120	+ 1,935
Float	.971	- .212	+ .149
Total Reserve Bank Credit	258,496	+ 3,584	+ 6,584
Treasury Deposits with			
Federal Reserve Banks	8,971	+ 4,985	-12,676
Currency in Circulation	236,170	- 1,284	+18,708
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	223,989	- 3,343	+42,117
Member Bank Reserves:	9/21/88		
Total Reserves Held	61,386	+ .812	+ 3,851
Excess (Deficiency)	.795	- .304	+ .280
Net Borrowed Reserves	.101	+ .589	+ .146
Monetary Aggregates †		‡ % Change Since 3 Months Ago*	Year Ago
M1 (9/12/88)	782.1	+ 5.9	+ 4.9
M2 (9/12/88)	3,037.1	+ 3.1	+ 5.6
M3 (9/12/88)	3,853.4	+ 6.4	+ 6.6
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.2	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/23/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.24%	7.46%	7.55%
* Federal Agencies	8.12	8.36	8.50
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.33	8.71	8.94
Negotiable Time CDs	Rates By Arrangement		
Manufacturers Hanover			
* Secondary Market—Prime	8.10	8.40	8.45
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.00%	Oct.	7.98%
15- 29 days	8.00	Nov.	7.98
30- 59 days	8.00	Dec.	8.00
60- 89 days	8.05	Jan.	8.07
90-179 days	8.13	Feb.	8.08
180-239 days	8.00	Mar.	8.08
240-270 days	8.00		
‡ Industrial Paper—Prime		† Federal Funds Effective Rate	8.19%
30- 89 days	8.05%		
90-120 days	8.10		

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	\$ 4,820	\$ 4,725	\$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	\$ 3,985r	\$ 3,956	\$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.0r	3.4	5.0
Change in Consumer Prices*	Aug '88n	4.8%	4.8%	3.6%
Change in MH Cost of Living Index	Aug '88n	2.4%	7.2%	3.6%
Change in Producer Prices*	Aug '88	7.2%	6.0%	3.6%
Civilian Employment (Thousands of Persons) †	Aug '88	115,180	115,059	113,050
Unemployment as % of Civilian Labor Force †	Aug '88	5.6%	5.4%	6.0%
Personal Income*	Aug '88n	\$ 4,079	\$ 4,071	\$ 3,804
Leading Indicators Composite Index (1967=100) †	Jul '88	192.1	193.7	190.9
Industrial Production Index (1977=100) †	Aug '88n	138.2	137.9r	131.2
Net Change in Consumer Installment Credit †	Jul '88	\$ 2.57	\$ 8.06	\$ 5.63
U.S. Merchandise Trade Balance †	Jul '88n	-\$ 9.53	-\$ 13.22r	-\$ 13.88
Plant and Equipment Expenditures*	4th Q'88n	\$444.40(a)	\$440.42r	\$406.82r
Private Housing Starts (Thousands of Units)*	Aug '88n	1,436	1,485r	1,583
New Construction Expenditures*	Jul '88	\$ 401.0	\$ 396.2	\$ 398.9
Total Business Inventories †	Jul '88n	\$ 733.7	\$ 731.5r	\$ 681.1r
Total Business Sales †	Jul '88n	\$ 487.7	\$ 488.8r	\$ 453.5r

*Seasonally adjusted annual rate.

†Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.



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*Market
Access*

Money Market Placing Power

Bergen Bank Corporation

**\$500,000,000
Commercial Paper Program**

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**Fireman's Fund Mortgage
Corporation**

**\$400,000,000
Eurocommercial Paper Programme**

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**Yamaha Motor International
Finance of BV**

**\$200,000,000
Eurocommercial Paper Programme**

**Yamaha Motor Finance Corporation,
U.S.A.**

**\$200,000,000
Commercial Paper Programme**

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**Formosa Plastics Corporation,
U.S.A.**

**\$100,000,000
Eurocommercial Paper Programme**

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Lorus Bankers Corp.

**\$200,000,000
Commercial Paper Program**

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LEP Group PLC

**£100,000,000
Eurocommercial Paper Programme and
Sterling Commercial Paper Programme**

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The Investment Banking Group



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New York, N.Y. 10015

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452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014

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